

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 IGA-02 ITC-01 AGRE-00 DOE-11 SOE-02
PA-02 L-03 EA-12 /131 W
-----108651 211808Z /41

R 211515Z FEB 78
FM AMEMBASSY BERN
TO SECSTATE WASHDC 5811
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSIONGENEVA
AMEMBASSY LONDON
AMCONSUL MILAN
AMEMBASSY ROME
AMCONSUL ZURICH POUCH

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USMTN ALSO FOR MISSION

USOECD ALSO FOR EMBASSY

PASS TREAS AND FRB

EO 11652: N/A
TAGS: EFIN, SZ
SUBJ: SWISS FINANCIAL REVIEW: WEEK OF FEB 12-18

1. SUMMARY: DOLLAR RATE AGAINST SWISS FRANC (SF)
FELL TO SF 1.88. GOLD PRICE ROSE TO \$178 PER OUNCE.
INTEREST RATES DECLINED FURTHER. ECONOMIC POLICY
OFFICE SEES POSSIBLE LONG-TERM SF STABILITY IN REAL
TERMS. JOURNAL DE GENEVA COMMENTED ON SWISS POLICY
AND US TRADE DEFICIT. OVERSEAS DEVELOPMENT BANK
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LOST APPEAL TO HAVE ITS LICENSE RESTORED. CREDIT
SUISSE WAS ASSESSED FOR UNPAID CHIASSO TAXES. END
SUMMARY.

2. FOREX AND GOLD: DOLLAR RATE AGAINST SF FELL
ABRUPTLY IN NERVOUS MARKET TO HIT NEW RECORD LOW OF
SF 1.8810 FEB 17 DESPITE SWISS NATL BANK (SNB) MARKET

INTERVENTIONS TO SUPPORT DOLLAR RATE. SF ALSO APPRECIATED AGAINST DM. DEALERS ATTRIBUTED DOLLAR RATE DECLINE TO MARKET UNCERTAINTIES FOLLOWING NORWEGIAN DEVALUATION, REPORT OF US ECONOMIC SLOWDOWN IN JAN IMPLICATIONS OF US COAL STRIKE, UNCERTAINTIES FOLLOWING NORWEGIAN DEVALUATION, REPORT OF US ECONOMIC SLOWDOWN IN JAN, IMPLICATIONS OF US COAL STRIKE, UNCERTAINTIES ABOUT US POLICY ON DOLLAR EXCHANGE RATE AND RELUCTANCE OF WEST GERMANS TO STIMULATE THEIR ECONOMY. PRESS SPECULATED US MIGHT LIKE TO SEE DOLLAR RATE DECLINE TO PRESSURE WEST GERMANY INTO ADOPTING POLICY TO STIMULATE DEMAND. DEALERS SAID GOLD PRICE ROSE ABRUPTLY TO NEAR 180 IN REACTION TO DOLLAR RATE MOVEMENTS. FURTHER PRICE RISE WAS EXPECTED IN HONG KONG AND NEW YORK BUT WAS NEUTRALIZED BY UNEXPECTED INCREASED OFFER IN EUROPE, PARTICULARLY FROM WEST GERMANY AND EASTERN EUROPE. DEALERS BELIEVE CURRENT MARKET NERVOUSNESS COULD RESULT IN PRICE DECLINE. RATE FOLLOW:

ITEM - FEB 13 (OPEN) - FEB 17 (CLOSE)

SPOT DOLLAR - 1.9490 - 1.8850

FORWARD DISCOUNTS
(PERCENT PER ANNUM)
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ONE MONTH - 6.26 - 6.49
TWO MONTHS - 6.67 - 7.06
THREE MONTHS - 6.62 - 6.83
SIX MONTHS - 6.41 - 6.66
TWELVE MONTHS - 5.74 - 5.94
SF/DM - 92.52 - 91.41
GOLD - 176.25 - 178.75

3. CAPITAL AND MONEY MARKETS:

A) STOCK PRICES ROSE ABRUPTLY IN REACTION TO FOREX DEVELOPMENT THEN EASED IN PROFIT TAKING. SKA SHARE INDEX HIT NEW HIGH OF 266.90 FEB 13, CLOSED AT 265.20 FEB 17. BROKERS REPORTED CONSIDERABLE SPECULATIVE ACTIVITY. EARNINGS DIFFERENTIAL BETWEEN STOCKS AND BONDS HAS SUBSTANTIALLY NARROWED. AVERAGE YIELD CONFEDERATION BONDS SLIPPED TO 3.50. SWISS MORTGAGE INSTITUTE (PFANDBRIEFBANK) ANNOUNCED LOAN ISSUE OF SF 100 MILLION FOR 15 YEARS AT 3.25 PERCENT INTEREST, ISSUE PRICE 99 PERCENT PAR. NEW ZEALAND ANNOUNCED LOAN OF SF 120 MILLION AT 3.75

PERCENT INTEREST FOR 15 YEARS, ISSUE AT 99 PERCENT PAR.

B) FOUR LARGEST BANKS REDUCED THEIR CASH BOND
INTEREST RATES 0.25 PERCENT ACROSS BOARD EFFECTIVE
FEB 15, NEW RATES ARE: 2.75 PCT FOR 3 TO 4 YEARS; 3
PERCENT FOR 5 TO 6 YEARS; AND 3.25 PCT FOR 7 TO 8 YEARS.
BIB GANKS ALSO ANNOUNCED
PMT PERCENT LOWER INTEREST
RATES EFFECTIVE MARCH 1 ON SAVINGS ACCTS AS FOLLOWS:
2.5 PCT FOR SAVINGS BOOKS; 2.75 PCT FOR SAVINGS
INVESTMENTS; 3 PCT FOR SENIOR CITIZENS; 3.5 PCT FOR
YOUTH SAVINGS; 2 PCT FOR PERSONAL ACCTS; 2.5 PCT
FOR PAYROLL SAVINGS; BUT ONLY 0.25 PCT LOWER TO 3
PCT FOR RETIREMENT PLANS.
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C) SWISS BANKERS' ASSN HAS AGREED TO EXTEND
TO END OCT ITS AGREEMENT WITH SNB WHEREBY WATCH,
TEXTILE AND SHOE INDUSTRIES CAN DISCOUNT BILLS OF
EXCHANGE OF UP TO SIX MONTHS' DURATION TO HELP
FINANCE EXPORTS. SNB PLANS TO EXTEND THIS FACILITY
TO OTHER EXPORT INDUSTRIES ENCOUNTERING FINANCING
PROBLEMS.

4. POLICY: FEDERAL ECONOMIC POLICY OFFICE REPORT
GAVE POSITIVE VIEW OF SF DEVELOPMENTS. ATTRIBUTED
1977 ECONOMIC RECOVERY TO IMPROVED EXPORTS AND
DOMESTIC CONSUMPTION. SAID STABLE SWISS PRICES AND
WAGES DURING FIRST TEN MONTHS 1977 MEANT SF ACTUALLY
DEPRECIATED IN REAL TERMS COMPARED TO OTHER CURRENCIES.
REPORT STATES AUTHORS' BELIEF LONG-TERM SF
STABILIZATION IN REAL TERMS IS POSSIBLE DESPITE
NOMINAL APPRECIATION; SEES FIRST HALF 1978 AS
INTERIM PHASE. HOWEVER, EXPORT PERFORMANCE VARIES
ACCORDING TO INDUSTRIAL BRANCH AND INDIVIDUAL FIRMS.
SNB FOREX MARKET INTERVENTIONS ARE NEEDED TO HELP
SOFTEN IMPACT OF SF APPRECIATION. GOOD 1977
ECONOMIC PERFORMANCE AND LOW INTEREST RATES SHOULD
ENCOURAGE NEW PRIVATE INVESTMENTS. HOWEVER, CURRENT
FEDERAL AND CANTONAL INVESTMENT LEVELS SHOULD BE
MAINTAINED TO PREVENT POSSIBLE ECONOMIC DOWNTURN.

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5. OPINION: JOURANL DE GENEVA EDITORIALS FEB 17
AND 18 NOTED THAT TRADE IMBALANCES COULD BE CORRECTED
THROUGH EXCHANGE RATE OR DOMESTIC PRICE CHANGES,
BUT MOST COUNTRIES RESIST THESE AUTOMATIC ADJUSTMENTS
AND REJECT OPTION OF CLOSELY COORDINATED ECONOMIC
POLICIES BECAUSE OF THE INCONVENIENCES. SIZE OF US
ECONOMY AND VOLUME OF DOLLARS IN INTL MARKET MEANS
IMPACT CHANGES DOLLAR EXCHANGE RATE NOT FULLY
REFLECTED IN US TRADE BALANCE. US TRADE DEFICITS
USUALLY HAVE BEEN OFFSET BY CAPITAL INFLOWS, WHICH
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WOULD BE HAPPENING TO GREATER EXTENT NOW IF US
ADMINISTRATION HAD GENERATED SUFFICIENT BUSINSS
OPTIMISM. BVURDEN US TRADE IMBALANCE FALLS ON SWISS,
WEST GERMAN AND JAPANESE CURRENCIES. SWITZERLAND
IS CLASSIC CASE COUNTRY RESISTING ADJUSTMENT;
MAINTAINS EXTERNAL SURPLUS AND RESISTS INFLATION

BY FOLLOWING DEFLATIONARY MONETARY AND BUDGET POLICIES TO AVOID STIMULATING DEMAND. RESULT IS SF APPRECIATION DESPITE SNB INTERVENTIONS, AT LEAST UNTIL SWISS EXTERNAL BALANCE IS RESTORED BY FALL IN EXPORTS, FOREIGN INVESTMENT EARNINGS, TOURIST INCOME, ETC. DOLLAR DEPRECIATION, HOWEVER, EVENTUALLY SHOULD HELP CORRECT US TRADE BALANCE AND ATTRACT CAPITAL INVESTMENTS.

6. BANKING; FEDERAL COURT FEB 17 REJECTED OVERSEAS DEVELOPMENT BANK (ODB) APPEAL OF FED BANKING COMMISSION (FBC) REVOCATION OF ODB'S BANK LICENSE. ODB ORIGINALLY BELONGED TO BERNIE CORNFELD'S IOS. SYNDICATS AG, CONTROLLED BY WERNER REY, BOUGHT ODB IN MAY 1976 FOR SF 14 MILLION AND FBC RECOGNIZED IT AS ENTIRELY SWISS-OWNED. SYNDICATS, CAPITALIZED AT SF 10 MILLION, SHORTLY THEREAFTER BOUGHT SF 50 MILLION IN CF BALLY SHARES IN TAKEOVER OF BALLY. REY HAD ASSETS OF SF 20 MILLION AND FBC SUSPECTED HE RECEIVED FOREIGN FUNDS. BALLY BOUGHT ODB FROM SYNDICATS IN EARLY 1977 BUT FBC OBLIGED BALLY RETURN ODB SHARES TO SYNDICATS AND WITHDREW ODB'S BANK LICENSE WHEN REY FAILED TO COMPLY WITH SWISS BANK LAW REQUIREMENT TO OBTAIN NEW PERMIT AS FOREIGN-CONTROLLED BANK AND PROVIDE FBC INFO ON FOREIGN PARTICIPATION. FBC ARGUED ODB WAS TAKEN OVER BY BANK SCHNEIDER AND MUENZING AG, MUNICH, THROUGH SYNDICATS. FEDERAL UNCLASSIFIED

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COURT SPLIT THREE TO TWO IN RULING THAT FBC HAD NOT ACTED HASTILY IN REVOKING ODB'S LICENSE. ODB IS EXPECTED TO BE LIQUIDATED. END 1977 BALANCE SHEET TOTAL ASSETS WERE SF 88.4 MILLION; DEPOSITS WERE SF 42.2 MILLION; PROFIT WAS LISTED AT SF 2.01 MILLION AND DIVIDEND AT 4 PERCENT.

7. CHIASSO AFFAIR:

A) FEDERAL TAX OFFICE RULED CREDIT SUISSE OWES SF 193 MILLION IN WITHHOLDING TAX PLUS SF 23 MILLION PENALTY INTEREST THAT SHOULD HAVE BEEN PAID ON FOREIGN OWNED TRUST ACCTS DEPOSITED IN ITS CHIASSO BRANCH FOR INVESTMENT IN TEXON-FINANZANSTALT, LIECHTENSTEIN. TAX LIABILITY AROSE BECAUSE CHIASSO BRANCH GUARANTEED FOREX DEPOSITS IN SF. SNB HAS RULED THAT CREDIT SUISSE ALSO OWES SF 62.2 MILLION IN UNPAID NEGATIVE INTEREST ON GUARANTEED ACCTS; BUT TAX OFFICE CLAIMS AMOUNT SHOULD BE SF 290 MILLION BECAUSE NEGATIVE INTEREST SHOULD BE COMPOUNDED QUARTERLY, NOT ONCE AS SNB RULED. CREDIT SUISSE

WOULD COVER UNPAID TAXES AND NEGATIVE INTEREST
OUT OF SF 500 MILLION IN CHIASSO CLIENTS' FUNDS
BLOCKED SINCE APRIL 1977; PENALTY INTEREST MUST
BE PAID ON BANKS OWN ACCT.

B) CREDIT SUISSE PUBLISHED REVIEW OF MEASURES
TAKEN TO CONSOLIDATE ITS PARTICIPATING INTERESTS
IN ITALIAN COMPANIES TAKEN OVER FROM TEXON UNTIL
THOSE INTERESTS CAN BE SOLD TO RECOVER SF 1.75
BILLION IN CLAIMS AGAINST TEXON. PRESS NOTED PUBLIC
DESIRES CONCRETE FIGURES TO ESTIMATE FINANCIAL
EFFECTS OF CHIASSO ON THE BANKS'S RESERVES, THOUGH
FINAL CALCULATION WILL TAKE YEARS. PRESS ALSO
PUBLICIZED CREDIT SUISSE LEGAL DISPUTE WITH ITALIAN
FINANCIER FERDINAND BOZZO OVER BANKS' 95 PERCENT
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CONTROLLING INTEREST IN MOLINI-CERTOSA, MILAN, WHICH
RESULTED FROM SF 50 MILLION LINE OF CREDIT EXTENDED
BY FORMER GEN MGR SERGE DEMIEVILLE ACTING ON HIS
OWN AUTHORITY.
WARNER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 feb 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BERN00815
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780078-0417
Format: TEL
From: BERN USMTN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780234/aaaabcst.tel
Line Count: 304
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 330d61d3-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 08 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3540928
Secure: OPEN
Status: NATIVE
Subject: SWISS FINANCIAL REVIEW: WEEK OF FEB 12-18
TAGS: EFIN, SZ
To: STATE
Type: TE
vdkgvwkey: odbs://SAS/SAS.dbo.SAS_Docs/330d61d3-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014